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SUBJECT: PRESIDENT FILLS CENTRAL BANK VACANCIES WITH
TECHNOCRATS AS BOARD SLASHES RATES

REF: A. 08 BOGOTA 3624

[1](#)B. BOGOTA 560

Classified By: CLASSIFIED BY ECONOMIC COUNSELOR LAWRENCE J. GUMBINER FOR
REASONS 1.4 (B) & (D)

[1](#)1. (C) SUMMARY: In surprise announcements February 27, President Uribe named two respected economists to fill openings on the Central Bank Board while the current Board cut its benchmark rate 1 percent amid slowing growth. The appointments defied expectations that President Uribe, a frequent critic of the Bank's tight monetary policy, would select at least one private sector representative more amenable to reducing interest rates. At the same time, the Board's full point rate cut, the third rate decrease in six months, exceeded consensus projections for a half-point reduction and underscored the Bank's growing concern about Colombia's economic outlook. While the appointments generally received positive reaction based on their professional merit and likelihood to follow sound economic policy, the aggressive rate cut received mixed reaction. Nevertheless, private comments by at least one outgoing Board member indicate the Bank is embarking on a looser monetary policy through the rest of 2009. END SUMMARY.

Technocrats Get the Nod

[1](#)2. (C) With the departure of Board Members Juan Mario Laserna and Leonardo Villar and President Uribe's consequent opportunity to sway the seven-member Central Bank Board with his fifth and sixth appointment, many outside observers expected Uribe to act on his previous criticism of the Bank's tight monetary policy (ref B) and opt for candidates from the private sector rather than orthodox economists. Defying those expectations, President Uribe appointed Vice Minister of Finance Juan Pablo Zarate along with University of Manizales Rector Cesar Vallejo Mejia. Various contacts, such as former Director of Public Credit Julio Torres, told us that President Uribe originally intended to take a middle course appointing Jose Felix Lafaurie, President of the National Cattlemen's Association (FEDEGAN), as the "private sector" representative along with Zarate or Colombian Representative to the World Bank Jorge Humberto Botero, but decided on Vallejo after Lafaurie declined Uribe's offer. (COMMENT: Lafaurie appointment would likely have proven controversial, given his lack of macroeconomic policy experience as well as rumored ties to former paramilitaries. END COMMENT.)

New Faces Well Received

[1](#)3. (C) The financial community generally welcomed the appointments of Zarate and Vallejo as competent selections

during a challenging economic period and a bolstering of the Central Bank's independence from the executive branch. Sergio Clavijo, President of the National Association of Financial Institutions (ANIF) and a former Central Bank Board member, told us ANIF applauded both appointments as individuals with extensive public policy and economic management experience. Alejandro Gaviria, Dean of Economics at the University of the Andes, and German Verdugo, Economic Studies Director at leading brokerage firm Correval, echoed the praise for Zarate's macroeconomic expertise and Vallejo's public policy experience, but noted that Vallejo may play a less visible role on the Board due to his more limited macroeconomic policy experience.

¶4. (C) Immediately prior to his appointment, Zarate served as the Technical Vice Minister at the Ministry of Finance and Public Credit where he worked closely with Finance Minister Zuluaga and was a good interlocutor of the Embassy. Zarate previously served as Director of Colombia's National Statistics Agency (DANE) and the National Guarantee Fund (FOGAFIN) which is similar to the Federal Deposit Insurance Corporation in the U.S. Zarate has held board positions at several GOC entities including Ecopetrol, Electrocaribe, the National Agricultural Bank (Banco Agrario), and the National Hydrocarbons Agency (ANH). An economist by training with a degree from the University of the Andes, he has traditionally maintained a low profile on GOC economic policy decisions, but is widely respected as one of the most astute technical minds in the Finance Ministry. He is likely to follow an orthodox anti-inflation policy line, but as a former Vice Minister and close colleague of Minister Zuluaga may still be subject to some political pressure.

¶5. (C) Following tenures as Vice Minister of Finance and Director of National Planning in the 1980s, Cesar Vallejo worked as a university professor and consultant, before becoming Rector of the University of Manizales. Vallejo has a masters degree in Economics and a bachelors degree in philosophy from Javeriana University. He is a friend of influential National Association of Industries (ANDI) President and Central Bank policy critic Luis Carlos Villegas, who served in the GOC during the same period, and reportedly recommended to President Uribe that he select Vallejo for the Board. While also likely to take a generally orthodox policy tack, Vallejo's informal ties to the business community may make him more amenable to looser monetary policies.

¶6. (SBU) Natalia Salazar Ferro was named to replace Zarate as Technical Vice Minister of Finance. She most recently served as Director of Macroeconomic Policy at the Ministry, and has prior experience in economic policy positions in DNP and the Central Bank. Before entering government, she worked as an associate researcher at prominent economic thinktank Fedesarrollo, Vice President of ANIF and an economics professor at University of the Andes.

Slowing Economy Spurs Aggressive Rate Cut

¶7. (SBU) The current Central Bank Board provided the second surprise of the day by cutting its benchmark rate 100 basis points to 8 percent citing slackening inflationary pressures and the weakening global economy. The cut is the third since July 2008 when the rate stood at 10 percent. In the Bank's announcement the Board expressed confidence that it will meet its 2009 target inflation range of 4.5 to 5.5 percent, but hinted that further interest rate cuts may be on tap in coming months.

Too Much of a Good Thing?

¶8. (C) Reaction to the large interest cut was mixed, despite idespread criticism in the business and financial community throughout 2008 that the Central Bank was strangling economic growth with too conservative monetary policy. Verdugo praised the cut as a positive and well-timed measure to

reinforce growth amid the steady roll of negative economic news. He also suggested that the Bank has room for further cuts given lower expected inflation in the coming months. Gaviria admitted surprise at the size of the rate reduction, but said it was sound given slowing inflation and rising unemployment. He welcomed the Bank's less cautious stance on rates as important step toward a more countercyclical monetary policy. On the other hand, Clavijo told us he considers the 1 percent rate cut to be excessive, suggesting that a half point trimming would have been more appropriate given the recent steep devaluation of the peso against the dollar. He added that, absent efforts to halt the peso's slide by selling international reserves, the sharp rate cut could fuel the currency's devaluation.

19. (C) In possibly the clearest signal that the Central Bank appears more concerned about slowing growth and increasingly comfortable with inflation, departing Board Member Juan Mario Laserna told Econoff March 3 that there was broad agreement on the Board for an aggressive cut. He expressed confidence that the Board would reduce the benchmark rate another 150-200 basis points to between 6 and 6.5 percent by the end of 2009. Laserna said that, in the absence of financing options for fiscal stimulus measures and with a looming national election in 2010, a shift by Colombia to a clear countercyclical monetary policy was the only real economic tool available to head off a further decline in growth and increase in unemployment.

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